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OCI NO. 0680/75

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
May 29, 1975

MEMORANDUM

SUBJECT: Iran's Mediatory Role in Middle East

1. Iran's economic and political ties to the three principals in the Arab-Israeli dispute--Egypt, Syria, and Israel--give it enough leverage to play a modest mediatory role. The Shah will use his limited leverage with great caution, however, and will be unwilling to risk his standing in either camp unless success is virtually assured. If he did agree to play a mediatory role, he would be much less willing to press the Arabs to concede on substantive points than to so press Israel.

Ties to Israel

2. Tehran has developed extensive, though circum-spect, links to Tel Aviv since the establishment of offices in each other's country in the late 1950s. These offices function as diplomatic missions in all but name. The Iran-Israel entente has remained remarkably stable over the years, and has been based largely on a common antipathy toward Arab nationalism, and more specifically on a common desire to neutralize the Iraqi regime. This base has eroded in recent years, however, and Tel Aviv has shown some uneasiness over the recent improvement in Iran's relations with Arab governments.

3. In the commercial field, Iran is Israel's sole foreign supplier of oil, which is used both for domestic consumption and for reexport to earn foreign exchange.

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The Shah supplied virtually all of Israel's oil before 1967. In 1974 Tehran supplied about 30 percent (40,000 bpd) of Israel's domestic needs; the remainder came from captured Egyptian oil fields in the Sinai. The Shah attempts to get around Arab criticism of his actions by purporting that Iran sells oil to the oil companies, not to governments, and that he has no control over its ultimate destination.

4. Other trade is marginal; neither country produces the kinds of industrial goods that can account for a major share of the other's import needs. Iran has benefited from Israeli technical help in the fields of water resources and agriculture, and Israel provides overhaul and maintenance service on Iranian aircraft.

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6. There are continuing military contacts between the two governments. Cooperation includes training, exchanges of personnel, and the purchase of military equipment. Iran paid over \$12 million for Israeli-produced military equipment during the first four months of 1975.

Ties to the Arabs

7. Egyptian President Sadat is the key to the Shah's attempt to stake out a larger role for Iran in the Middle East. The two leaders have consulted twice this year--in January and April

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8. The Shah uses his ties with Sadat to increase his acceptability to other Arab leaders. Sadat benefits from the Shah's political support, which has the outward appearance of furthering the political isolation of Israel. Sadat also hopes to use the Shah to influence US Middle Eastern policy.

9. Economic aid to Egypt is an important source of the Shah's influence in Cairo. Sadat values Tehran's aid because it lessens somewhat his dependence on Moscow and the Arabs. The Shah, wishing to encourage this independence, has been generous. He responded immediately to urgent requests from Sadat for oil in November 1974--sending 600,000 tons--and for \$120 million in budgetary help in March 1975. In addition, Iran has provided some \$850 million in economic credits.

10. Iran also has promised \$150 million in economic credits to Syria. They will pave the way for an expanded dialogue between the two governments, but probably do not constitute any leverage on negotiating issues. Iranian-Syrian relations have been strained somewhat in recent months by Syrian criticism of the Iran-Iraq accord.

The Shah's Attitude Toward a New War

11. The Shah might be willing to use his influence in a low-keyed way with both sides, but probably only if there is a good chance it would encourage a settlement. He would want to avoid involvement in a failing effort, or in one that appeared to ally Iran with US Middle East policy. The Shah has traditionally tended to regard conflict between Israel and the Arabs as serving Iranian interests. It occupied the Arabs and gave Iran a freer hand to pursue its interests in the Persian Gulf. The Shah sought to sit on the fence, keeping his ties to Israel low-key in order to avoid antagonizing his Arab neighbors and to minimize protests from those Iranians who favored a strong pro-Arab stance by Tehran.

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12. The Shah now appears to regard a settlement as generally serving Iran's interest, although a new oil embargo would ensure continued high revenues for a non-participating Iran. The more direct involvement of Saudi Arabia and the other Gulf states in the Arab-Israeli question and the almost certain use of oil as a weapon in any new war would make it much more difficult for Iran again to stay on the fence, as is its preference.

13. In addition, the conflict has encouraged the development of radical Palestinian organizations, the strengthening of Arab unity, and increased Soviet penetration of the region--all, the Shah believes, to the detriment of long-range Iranian goals.

14. A settlement, on the other hand, especially if achieved with Iranian help, would promote the Shah's regional goals and at the same time preserve his ties with Israel against the day when Iranian ambitions clash more directly with Arab nationalism.

Limitations

15. The Shah is more able and probably more willing to press Tel Aviv for concessions than the Arabs. Good relations with moderate Arab leaders are essential to his oil policy and to the kind of regional security system he is trying to construct in the Persian Gulf. Moreover, the Arabs are in a position to exert counterpressure on Iran. For example, Saudi Arabia could undermine the Shah's oil price policy, or could combine with Egypt and Iraq to stymie Iranian goals in the Gulf and press for removal of Iranian troops from Oman.

16. Tel Aviv, on the other hand, has little leverage with Tehran. In fact, as Iran's relations with the Arabs improve, Iran's Israeli connection becomes an increasing liability. Close ties to Israel would tend to vitiate Iranian efforts to command political developments in the

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Gulf by adding to existing Arab suspicions of Persian nationalism. At the same time, Israel is in no position to aid Tehran should the Shah become involved in conflict with a Gulf competitor such as Iraq. One factor that will limit the Shah's willingness to be in the forefront pressuring Israel is his probable belief that the Israelis would win any new war.

17. Iran's basic position on the Arab-Israeli issue also militates against it pushing for substantive concessions from the Arabs. The Shah condemns Israeli occupation of Arab territory, calls for a return to the boundaries existing before the 1967 conflict, and does not accept the change in status of Jerusalem. His public support for this position has sharpened considerably in the past year, and he has stressed the theme that Israeli intransigence is the main impediment to a settlement. The Shah, therefore, would be most likely to apply pressure on Israel to alter its substantive position, while any pressure on the Arabs would probably be designed to deter the initiation of new hostilities, rather than to modify their principal demands. In return, the Arabs would probably demand that the Shah use his influence in Washington to secure greater pressure on Tel Aviv to make concessions.

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Approved For Release 2003/04/01 : CIA-RDP85T00353R000100170008-0

Approved For Release 2003/04/01 : CIA-RDP85T00353R000100170008-0